



# Achieving Competitive Advantage Through Supply Chain Excellence

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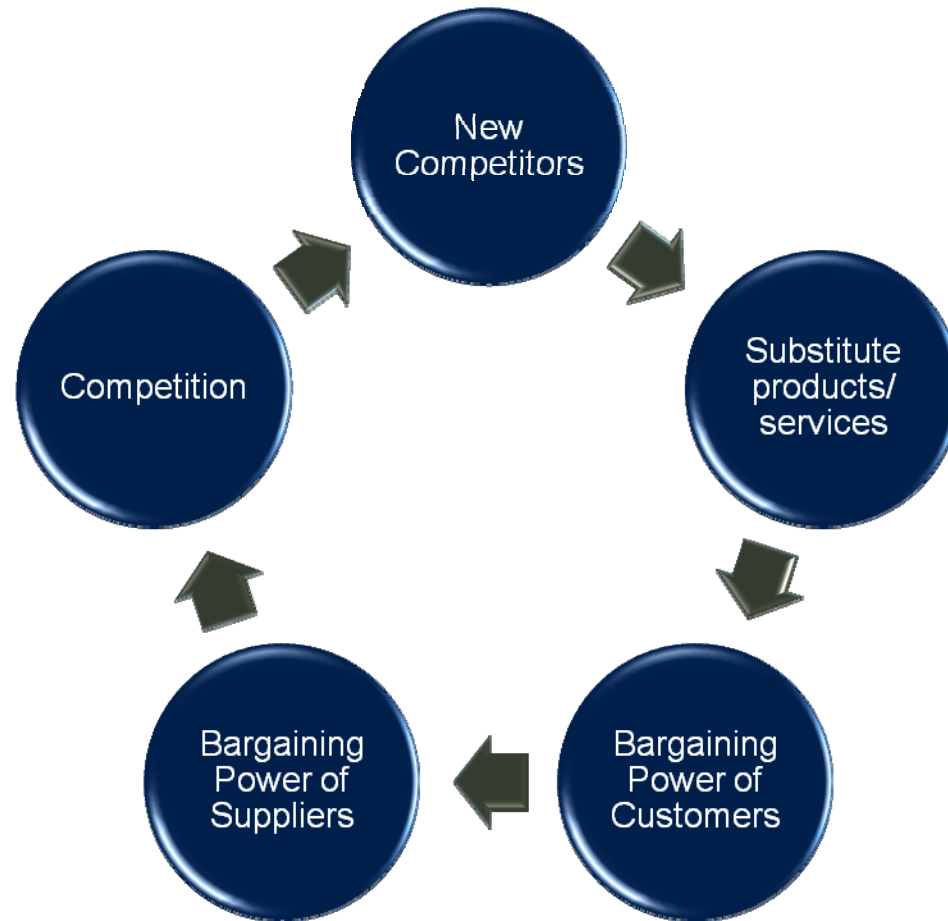
# Presentation objectives

- Competitive Forces
- Sources of Competitive Advantage
- Focus on Supply Chain
- Discuss ways an ASC can use a GPO to improve profitability

# Competitive Forces



# Competitive Forces



# Competitive Forces

- **The threat of new competitors**
  - Hospital outpatient departments
  - Specialty hospitals
  - Other ASCs
  - In office procedures by some physician specialties
- **The threat of substitute products or services**
  - Physicians performing procedures in office
  - Technological change – new treatments or advances in medical technology
  - Ease of substitution

# Competitive Forces

- **The bargaining power of customers**
  - Consumerism
  - Payers
- **The bargaining power of suppliers**
  - Supplies
  - Labor
- **The intensity of competitive rivalry**
  - Number of competitors
  - Diversity of competitors

# Competitive Advantage

Forces affecting the Industry Structure	GENERIC STRATEGIES AS DEVELOPED BY MICHAEL PORTER		
	Cost Leadership	Differentiation	Focus
Entry Barriers	Ability to cut price deters potential entrants	Customer loyalty hinders potential entrants	Development of core inimitable competencies
Buyer power	Ability to offer even lower price to more important buyers	Even large buyers have less power to negotiate due to differentiation	Large buyers have less power to negotiate from core competency
Supplier Power	Better insulation from powerful suppliers	Better position if supplier's price increase	Supplier's price may not have effect at all
Threat of Substitutes	Use a low price to ward off substitutes	Customer's attachment to differentiating attributes wards threats	Specialized attributes and core competencies ward off substitutes
Competitive Rivalry	Better competitiveness on price, unmet by competition	Brand loyalty can hinder switching to competitors	Rivals cannot meet differentiation developed for customer

Source: <http://www.jbdon.com/porters-generic-strategies.html>

# Competitive Advantage

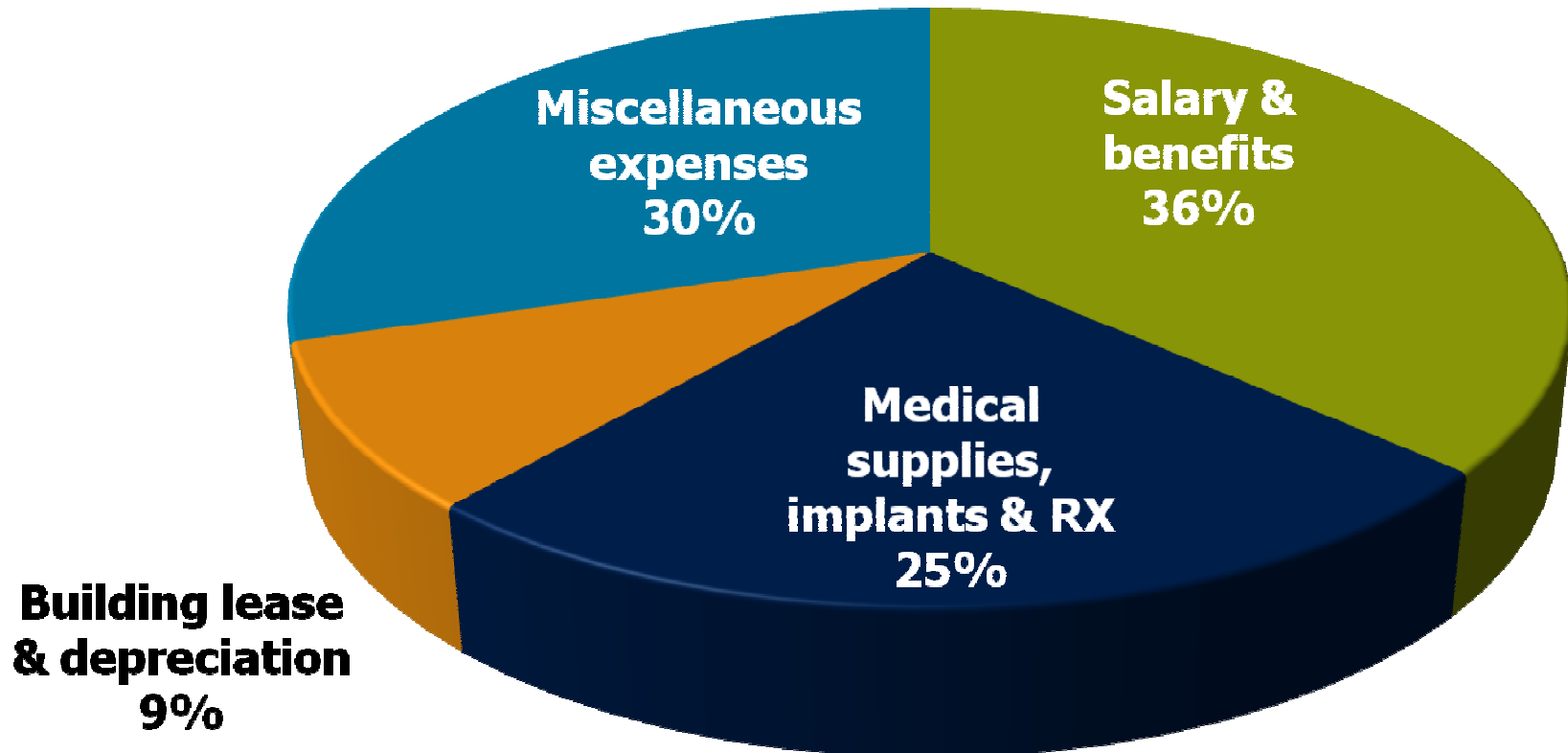
- Focus on a specialized niche
  - A clearly defined specialty/focus
- Differentiation
  - A better location
  - Better equipment
  - The best surgeons
  - Better reputation and quality of care



# Competitive Advantage

- Cost Leadership
  - Decreased Labor cost – *Maybe*
  - Decreased Overhead cost – *Maybe*
  - Decreased Supply cost – **YES!**
    - Focus on your supply chain since every dollar increases cash flow!
    - More cash flow = a better bottom line or is available to make other investments.

# Where is the money spent?



**You can significantly improve your supply costs by focusing on supply chain excellence!**

# Supply Chain Excellence

- What is supply chain excellence?
  - According to the Supply Chain Council supply chain excellence leaders:
    - Recognize the critical role of supply chain management;
    - Made a commitment to optimize supply chain performance; and
    - Demonstrated this commitment through successful supply chain improvements

# Supply Chain Excellence

- Utilize the suggestions below to create a model of supply chain excellence...
  - Create & monitor inventory management policies and procedures
  - Continually improve operational efficiencies (EDI, automation, etc...)
  - Seek avenues to reduce inventory cost (JIT, consignment, etc...)
  - Invest in technology to provide visibility and transparency
  - Contracting expertise - utilize supply chain experts
    - Work closely with your suppliers and distributors to create mutually beneficial partnership
    - Work with physicians to address high cost preference items
    - Join and more importantly partner with a GPO partner to reduce costs

# GPO role in supply chain

1. Reduce administrative cost of contracting
2. Improve purchasing power through collective volume
3. Monitor market conditions and make adjustments as appropriate
4. Advocate



Manufacturers



Distributors



Delivery



ASC

**GPO is the advisor, advocate and customer service representative for ASC**



GPO contracting and pricing is with manufacturers and distributors

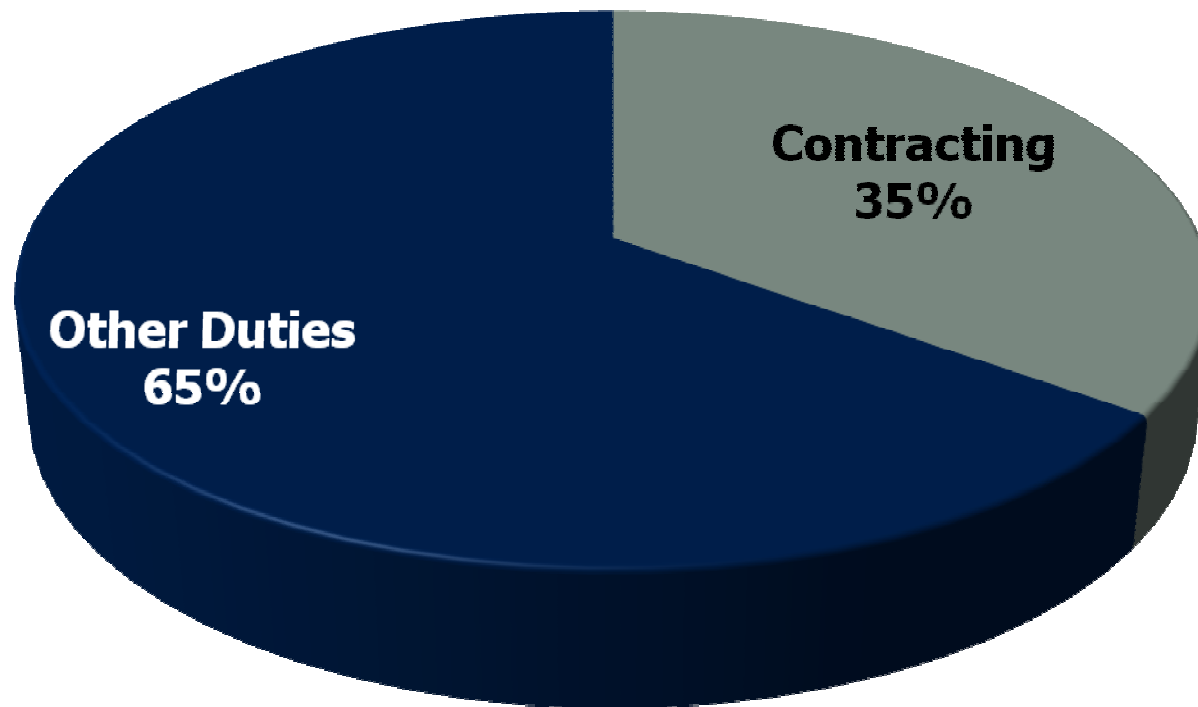
# The value of contracting

Number of contracts	90
Hours to negotiate contacts	8
Average hourly cost	\$21.63
Cost to develop contracts	\$15,574

# of Contracts	90	150	200
Hours	8	8	8
Total Hours	720	1,200	1,600
Salary*	\$21.63	\$21.63	\$21.63
Total Cost	\$15,574	\$25,956	\$34,608

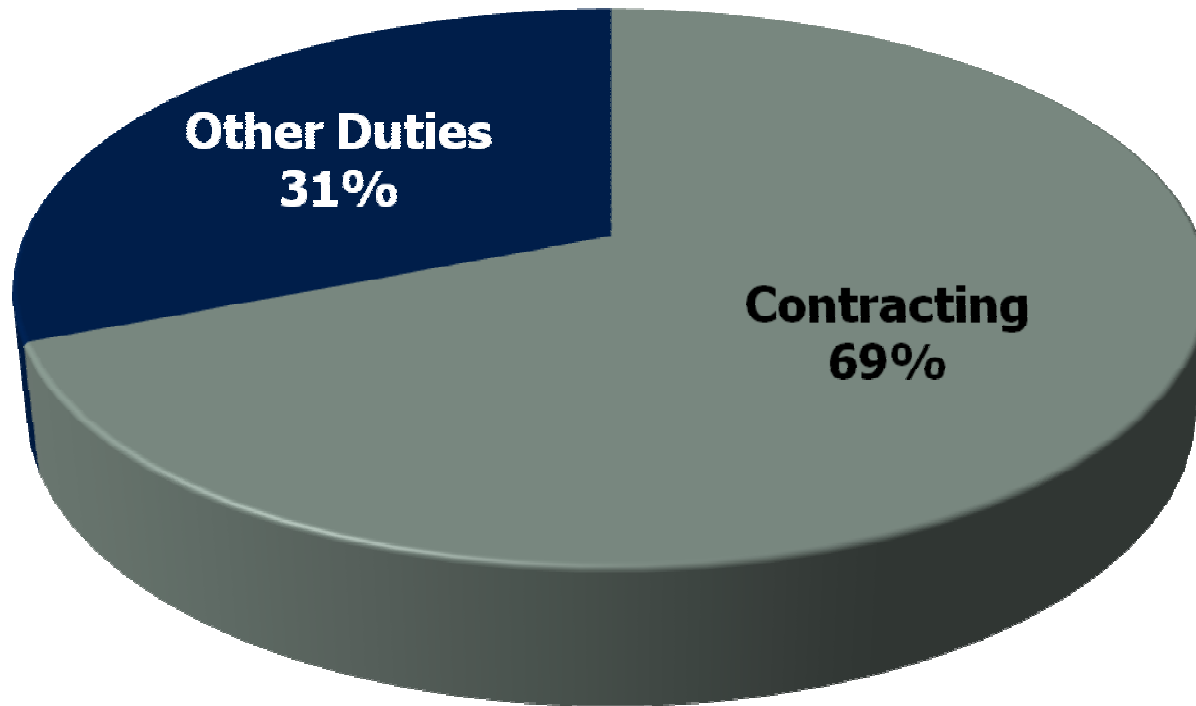
# Contracting time #1

- Time spent contracting with 90 contracts X 8 hours per contract assuming 260 work days per year



# Contracting time #2

- Time spent contracting with 90 contracts X **16** hours per contract assuming 260 work days per year





# GPO coverage

A typical GPO covers from 75% – 80% of your supply spend in the following categories:



# Aligning needs with capabilities

## What a GPO should provide

- An understanding of your business needs and challenges
- Discounted pricing on supplies, services, pharmaceuticals and capital equipment
- Ongoing account management to assist you with future opportunities
- Act as your advocate with suppliers and distributors to ensure contract value is delivered
- Better information on utilization and supply chain performance
- New avenues for cost reduction and revenue enhancement
- Ease of doing business



GPO



ASC

## What an ASC needs

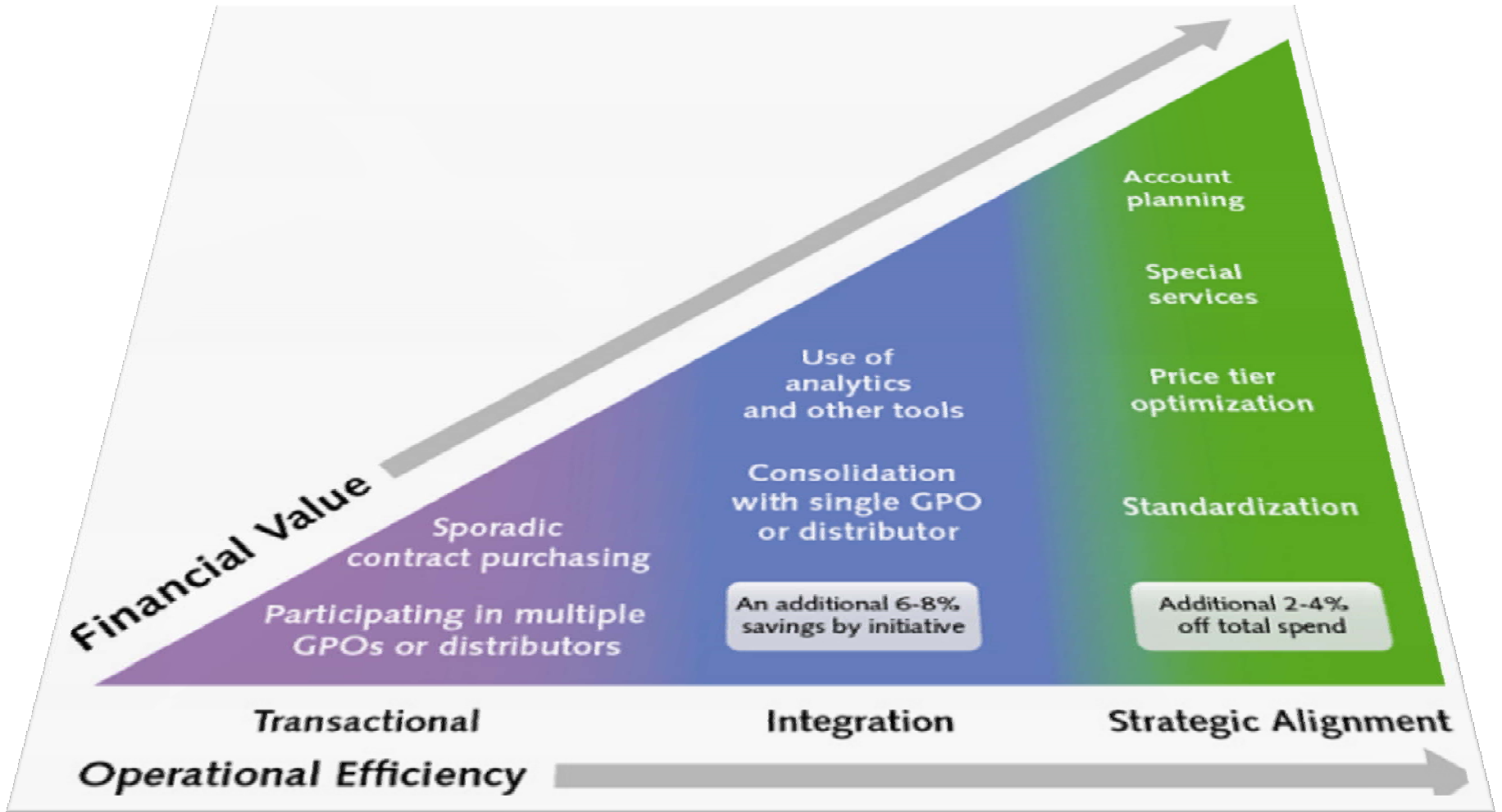
# Understanding your performance



Use performance metrics to set your supply chain priorities

- Supply cost as a percentage of net revenue
- Supply cost as a percentage of total expense
- Supply cost per case, by physician and by procedure

# Engagement with your GPO



# Tips for productive relationship

## Develop a joint plan

- Identify your priorities
- Share your initiatives
- Select the top three items to accomplish over a set period of time
- Look for some quick wins to build momentum
- Commit to work diligently to achieve the set objectives

**As with any relationship, the more you invest the more rewards you will receive.**

# Know your GPO

- Large purchasing power represented for ASC customers?
- Options for distributors to use?
- Offer a specialized portfolio for ASC customers?
- Has dedicated support personnel to help ASC customers?
- Has a private label brand for commodity products?
- Contracts include price tiers for ASC providers?
- Has a Web site where contract details, special promotions, etc. can be found?

# Guide to engaging the value

1. Choose a GPO
2. Choose a distributor
3. Review contract portfolio for quick wins
4. Complete all applicable documents
5. Assess your supply chain for conversion opportunities
6. Go beyond supplies
  - ✓ Supplier Diversity Initiatives
  - ✓ Green or Eco-friendly initiatives
  - ✓ New Technology
  - ✓ Services
7. Monitor Performance

# Tips for productive relationship

Key to success is willingness to partner with your GPO

- Invest your time
  - Biweekly calls
  - Quarterly in-depth business reviews
  - Periodic on-site visits
- Share your goals
  - Long term goals
  - Annual corporate goals
  - Personal professional goals



# Tips for productive relationship

## Information is power

- Obtain purchase information from your distribution partners
- Look into your top manufacturer direct supplies
- Do not hesitate to ask your GPO to help obtain this information

# **Thank You!**

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